



Hargreaves

Interim Report

for the six months ended
30 November 2018
Hargreaves Services plc



Hargreaves Services plc delivers key services to the industrial and property sectors.

Contents

- 01 Chairman's Statement
- 03 Chief Executive's Review
- 06 Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
- 08 Condensed Consolidated Balance Sheet
- 09 Condensed Consolidated Statement of Changes in Equity
- 11 Condensed Consolidated Cash Flow Statement
- 12 Notes to the Condensed Consolidated Interim Financial Information
- 16 Investor Information

Chairman's Statement

Roger McDowell, Chairman

I am pleased to report on the underlying progress of Hargreaves in the six months ended 30 November 2018.



The Board has continued to realise legacy and non-core assets to reduce debt and to focus on core activities in Distribution & Services and Property to create sustainable platforms for growth. Brockwell Energy Limited, the Group's former energy business, was successfully disposed at a profit during the period, however, the Group also suffered a material loss following the failure of Wolf Minerals (UK) Limited.

Results

Revenue increased by 12% to £167.9m (2017: £150.3m). In Distribution & Services revenue grew by 4% to £152.5m (2017: £146.8m) despite a reduction of £1.5m in revenue deriving from the three legacy contracts in Specialist Earthworks. Property revenue increased to £9.4m (2017: £3.1m) due to the timing of surplus land sales. Sales of Legacy assets amounted to £5.9m (2017: £0.4m).

Underlying Operating Profit for the first half was 32% higher at £4.1m (2017: £3.1m). Distribution & Services recorded a 14% increase in Underlying Operating Profit to £6.4m (2017: £5.6m) and Property improved by £0.8m, recording a £0.4m profit (2017: loss of £0.4m). The improved underlying operating performance derives primarily from the Group's UK operations. Underlying Operating Profit is defined by the Board as Operating Profit from continuing activities prior to exceptional items and amortisation of intangible assets and includes the Group's share of the operating profit of its German associate. Operating loss under IFRS was £6.1m (2017: loss of £2.3m), due to the impact of the exceptional item noted below.

As previously announced, in October 2018, one of the Group's customers, Wolf Minerals, announced that it had ceased trading and subsequently it has moved into an insolvency process. As a result, the Group has incurred an exceptional loss of £8.1m, comprising a £5.1m write down of trade debt and WIP balances and £3m of redundancy and other associated costs.

After accounting for the exceptional item of £8.1m (2017: £2.8m), amortisation of intangible assets of nil (2017: £0.2m) and adjusting for tax on the profits of the German associate of £0.5m (2017: £0.7m), the loss before tax was £6.0m (2017: loss of £1.6m).

Brockwell Energy Limited

The Board was pleased to complete the sale of the entire share capital of Brockwell Energy Limited ("Brockwell") in October. The initial gross proceeds, including the reimbursement of certain costs, were £21.7m. A further £2m in cash may become payable, contingent upon the successful financial close of a future development project. A profit on the disposal of Brockwell of £4m, excluding the contingent consideration, has been recorded within Discontinued Operations. Hargreaves has retained certain freehold land assets on which Brockwell intends to develop renewable energy assets in the future and as a result the Group will continue to have a landlord/tenant relationship with Brockwell on arm's length terms.

Earnings Per Share

Underlying basic earnings per share from continuing operations increased by 54% to 5.4p (2017: 3.5p) and a loss per share of 2.6p (2017: loss per share 4.0p) on a reported basis.

Net Debt

Net debt was £28.6m (2017: £20.6m). This was £2.2m lower than reported at 31 May 2018. The increase when compared to 30 November 2017 is primarily due to higher levels of working capital in the Distribution & Services business as a result of revenue growth, outweighing the cash receipts from the sale of Brockwell and from the realisation of Legacy assets. During the first half of the financial year, £5.9m (2017: £0.4m) of Legacy assets were realised leaving a balance of £21.5m to be converted to cash. The Board expects to reduce net debt in the second half of the year as a result of the expected realisation of further Legacy assets, although the level of reduction will be tempered by the growth in working capital referred to above and investment in new Property opportunities.

Dividend

The Board has decided to maintain the interim dividend at 2.7p (2017: 2.7p). This will be paid on 8 April 2019 to shareholders on the register at 1 March 2019. The Board intends to return with immediate effect to a more conventional dividend payment policy, distributing approximately one third of the anticipated full year dividend at the interim stage and more generally will seek to increase dividends progressively, balancing this objective with continuing to reduce net debt.

Brexit

The uncertainty of the final outcome to the Brexit discussions is constantly in the headlines. As far as Hargreaves is concerned, the Group carries out almost all of its business wholly within the UK and has very little import/export activity with the EU. As a result, the Board does not expect any material direct impact on their trading activities whatever the final resolution to Brexit may be. The German associate business, HRMS, trades almost exclusively within the EU but imports much of its trading stock from outside the EU so again no direct impact on their trading is expected. Of course, it is impossible to assess with any degree of accuracy the broader macro-economic impact of Brexit on either the EU or the UK.

Board Changes

I was pleased to succeed David Morgan as Chairman on 1 August 2018. David led Hargreaves through a particularly challenging period in its history and the Board thanks him for his services. Additionally, Peter Jones decided not to seek re-election as a non-executive Director at the Annual General Meeting held on 30 October 2018. The Board has commenced a process to appoint a new non-executive Director.

On 12 November 2018, David Anderson joined Hargreaves as Group Property Director, reflecting the Board's desire to build a substantial property development business as well as realising value from the Group's existing land portfolio.

Chairman's Statement continued

Strategy

Following my appointment as Chairman, the Board conducted an initial review of strategy. Following this review, an historical risk analysis related to the CA Blackwell acquisition is being undertaken.

Looking forward, it was decided that there should be three key areas of focus. First, the realisation of cash from the disposal of surplus assets and non-core activities including the Legacy assets. Secondly, a focus to increase returns from the Distribution & Services business, including improving the profit resilience of Hargreaves Raw Material Services GmbH ("HRMS"), the Group's German based European specialist raw materials trading associate business. Thirdly, the development of the Group's Property business, Hargreaves Land, which the Board regards as an important area to generate greater medium and longer-term value. The recent recruitment of David Anderson as Group Property Director provides impetus and relevant operational experience towards achieving this objective. The Board considers that progress has been and is being made in all three areas.

Outlook

Notwithstanding the losses arising from the Wolf Minerals failure, these results indicate that the Group is making headway towards meeting its declared strategic objectives with further progress expected in the second half of this financial year. The Board anticipates reporting full year results in line with its expectations.

Roger McDowell

Chairman
30 January 2019

Chief Executive's Review

It has been particularly satisfying to see the improvements in revenue and underlying operating margins in Distribution & Services and to have concluded the sale of Brockwell Energy Limited.



Distribution & Services

The Distribution & Services business recorded revenue of £152.5m (2017: £146.8m) and an Underlying Operating Profit of £6.4m (2017: £5.6m). Operating loss under IFRS was £3.8m (2017: profit of £0.1m). When the revenue on legacy contracts within Specialist Earthworks is excluded, revenue increased by 5.0% to £150.4m (2017: £143.2m) and therefore the Underlying Operating Profit margin increased to 4.3% from 3.9%. Further information on the performance of each business within this segment is given below.

Production & Distribution

Revenue in Production & Distribution was £62.7m (2017: £76.3m). Revenue reduced as the business continued with the strategy of moving away from lower margin bulk products to focus on higher margin speciality coal sales. UK Underlying Operating Profit was maintained at £2.0m (2017: £2.0m). The coal production and processing sites at House of Water and Killoch in Scotland continue to yield a high proportion of speciality coals, pricing of which has remained strong. Favourable trading conditions are expected to persist in the second half of the financial year.

Additionally, the Group's German associate contributed £2.0m (2017: £2.4m). Trading conditions in the German market in certain speciality minerals have been slightly weaker than a year ago. It should be noted that this business has been traditionally stronger in the second half of the financial year although, as it is a trading business, market conditions can be unpredictable creating short term volatility. Currently, HRMS expects that second half trading will be no stronger than the first half performance. The construction of a Carbon Pulverisation Plant for HRMS remains on plan for completion in the second quarter of calendar year 2019 with initial production due to commence early in the next financial year.

Industrial Services

Revenue grew by 37% to £39.4m (2017: £28.7m) with an Underlying Operating Profit of £1.4m (2017: £0.3m) representing a margin of 3.6% (2017: 1.0%). The principal reason is an improved operating performance in the UK where revenue growth of 46% and an increase in margin to 5.1% from 3.0%, led to a £0.9m increase in Underlying Operating Profit. This has been driven both by new business being secured but also by a focus on operational efficiency and cost reduction. Increased levels of activity have caused an increase of approximately £6m in working capital levels which is expected to continue through the rest of the financial year.

As in previous years, the cyclical profiling of contracts and planned site outages in Hong Kong, means that operating profit in the overseas Industrial Services business, which reported a loss of £0.1m (2017: loss of £0.3m), will be heavily weighted to the second half in which a strong profit performance is expected. The Hong Kong business is currently focused on the renewal of the NEC Term Service Contract with its major customer. This process is expected to be concluded prior to the financial year end.

Specialist Earthworks

Excluding the impact of the three legacy contracts, the Specialist Earthworks business recorded revenue of £48.5m (2017: £38.6m) and an Underlying Operating Profit of £1.0m (2017: £0.9m). Productivity has benefited from the good weather over the summer, resulting in stronger than expected revenue in certain contracts alongside increased revenue arising from dealing in plant.

The major contract in this business unit is the A14 bulk earthworks project which is expected to contribute over £20m in revenue this year. Future business opportunities with similar operational and contractual characteristics are being pursued including participation in the construction of the HS2 high speed rail infrastructure, where C. A. Blackwell has been selected as a preferred supplier by one of the major consortia.

During the period, the business suffered the loss of an important contract at the Hemerden tungsten mine in Devon as a result of the insolvency of the customer, Wolf Minerals. Full provision totalling £8.1m has been made against expected losses resulting from this which are reported within Exceptional Items. As a result of the termination of the Hemerden contract and as other contracts which are not in bulk earthworks reach their conclusion, the Board expects revenue in the second half of the year to reduce substantially in this business unit.

The three legacy contracts in C.A.Blackwell are now at the stage of agreeing final account settlements with clients and the supply chain. Whilst the Group is hopeful of reaching satisfactory agreements soon, some or all of these accounts may not be fully resolved during the current financial year which may mean a higher than expected level of working capital at the year end.

As previously reported, the Group is pursuing a claim against the vendors of C.A.Blackwell for breach of warranty. This matter is ongoing but is likely to take some time to reach a resolution. Costs in respect of the claim are being expensed as they are incurred.

Property

Property contributed £9.4m (2017: £3.1m) of revenue in the first half and an operating profit of £0.4m (2017: loss of £0.4m). The improved result derives from the sale of a number of parcels of surplus land which did not have sufficient cost-effective development potential to warrant retention.

Following his recruitment as Group Property Director in November, David Anderson has been considering how best to realise value from the existing portfolio of land assets as well as evaluating a number of other opportunities. The net book value of the land portfolio as at 30 November 2018 stood at £26.2m (2017: £31.8m). Since last year, some £10.6m of the comparative figure has been sold.

Chief Executive's Review continued

During the period, £4.2m of expenditure has been incurred installing infrastructure and services at the key Blindwells site near Edinburgh, where outline planning consent for 1,600 houses had already been secured. Substantial interest has been generated from residential developers and the Board is pleased to announce that a conditional contract for sale, valued at over £1m, has been signed in respect of the first development plot. Legal completion is principally dependent upon receiving detailed planning permission and associated statutory approvals.

Additionally, the Group is in the final stages of negotiating three development projects which the Board expects to conclude in second half of the financial year. These projects would require £4m of initial funding.

Last year, planning permission in principle was granted for an energy from waste ("EFW") plant and other industrial developments at Westfield, a former open cast coal mine in Fife. Hargreaves' former subsidiary, Brockwell Energy Limited, is now focused on the development of this EFW plant following the successful financial close of its other EFW project at Earl's Gate. Hargreaves retains 100% ownership of the Westfield site.

Legacy Asset Realisations

During the period sales of Legacy Assets amounted to £5.9m (2017: £0.4m) with no Underlying Operating Profit (2017: £Nil) being recorded. The remaining Legacy Assets of £21.5m (2017: £32.8m) comprise loans due from the Tower Joint Venture of £16.7m (2017: £17.5m) and surplus plant and machinery. The majority of the remaining Legacy assets are expected to be realised during calendar year 2019.

Capital Allocation

As the Group continues its process of transition, the Board's decision to invest in the development of Hargreaves Land together with the growth being achieved in the Industrial Services business is likely to lead to a lower than previously expected reduction in net debt by the end of the financial year.

Summary

During the period, it has been particularly satisfying to see the improvements in revenue and underlying operating margins in Distribution & Services and to have concluded the sale of Brockwell Energy Limited although the failure of Wolf Minerals has been an unexpected setback. The Property business, Hargreaves Land, has excellent prospects and I look forward to its success under David Anderson's leadership.

Gearing (measured as net debt compared to net assets) at the end of November 2018 was 21% (2017: 15%) but is expected to reduce in the second half of the year. The Group's strong balance sheet provides an excellent basis from which to generate sustainable returns and shareholder value.

Gordon Banham

Group Chief Executive
30 January 2019

Financial Statements

- 06 Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
- 08 Condensed Consolidated Balance Sheet
- 09 Condensed Consolidated Statement of Changes in Equity
- 11 Condensed Consolidated Cash Flow Statement
- 12 Notes to the Condensed Consolidated Interim Financial Information
- 16 Investor Information



Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income for the six months ended 30 November 2018

	Note	Unaudited six months ended 30 November 2018 £000	Represented* Unaudited six months ended 30 November 2017 £000	Audited year ended 31 May 2018 £000
Revenue		167,872	150,268	297,119
Cost of sales		(160,238)	(138,167)	(266,746)
Gross profit		7,634	12,101	30,373
Other operating income/(expense)		163	688	(185)
Administrative expenses		(13,854)	(15,108)	(31,564)
Operating loss		(6,057)	(2,319)	(1,376)
Analysed as:				
Operating profit (before exceptional items)		2,073	490	2,108
Exceptional items – Cost of sales		(8,130)	(2,809)	(3,025)
Exceptional items – Administrative expenses		–	–	(459)
Exceptional items	5	(8,130)	(2,809)	(3,484)
Operating loss (after exceptional items)		(6,057)	(2,319)	(1,376)
Financial income		98	328	626
Financial expenses		(1,001)	(913)	(1,937)
Share of profit of associates and jointly controlled entities (net of tax)	6	932	1,324	3,175
(Loss)/profit before tax		(6,028)	(1,580)	488
Taxation	7	1,173	569	693
(Loss)/profit for the period from continuing operations		(4,855)	(1,011)	1,181
Discontinued operations				
Profit/(loss) for the period from discontinued operations	8	4,007	(275)	(1,000)
(Loss)/profit for the period		(848)	(1,286)	181
Other comprehensive (expense)/income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans		–	–	(857)
Tax recognised on items that will not be reclassified to profit or loss		–	–	120
Items that are or may be reclassified subsequently to profit or loss				
Foreign exchange translation differences		313	(249)	(22)
Effective portion of changes in fair value of cash flow hedges		(992)	(237)	1,123
Tax recognised on items that are or may be reclassified subsequently to profit or loss		169	62	(192)
Other comprehensive (expense)/income for the period, net of tax		(510)	(424)	172

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income for the six months ended 30 November 2018 continued

	Note	Unaudited six months ended 30 November 2018 £000	Represented* Unaudited six months ended 30 November 2017 £000	Audited year ended 31 May 2018 £000
Total comprehensive (expense)/income for the period		(1,358)	(1,710)	353
(Loss)/profit attributable to:				
Equity holders of the company		(846)	(1,262)	229
Non-controlling interest		(2)	(24)	(48)
(Loss)/profit for the period		(848)	(1,286)	181
Total comprehensive (expense)/income for the period attributable to:				
Equity holders of the company		(1,356)	(1,686)	401
Non-controlling interest		(2)	(24)	(48)
Total comprehensive (expense)/income for the period		(1,358)	(1,710)	353
GAAP measures				
Basic earnings per share (pence)	10	(2.64)	(3.96)	0.72
Diluted earnings per share (pence)	10	(2.64)	(3.96)	0.71
Basic earnings per share from continuing operations (pence)	10	(15.13)	(3.10)	3.84
Diluted earnings per share from continuing operations (pence)	10	(14.95)	(3.06)	3.82
Non-GAAP measures (continuing)				
Basic underlying earnings per share (pence)	10	5.40	3.52	14.90
Diluted underlying earnings per share (pence)	10	5.33	3.48	14.79

*Comparative figures have been represented to reflect the discontinued operation under IFRS 5, as explained in Note 2.

Condensed Consolidated Balance Sheet as at 30 November 2018

	Unaudited 30 November 2018 £000	Unaudited 30 November 2017 £000	Audited 31 May 2018 £000
Non-current assets			
Property, plant and equipment	53,712	66,766	53,777
Investment property	11,762	11,544	11,909
Intangible assets	11,126	12,122	11,121
Investments in associates and jointly controlled entities	11,159	8,206	10,116
Other financial assets	–	87	–
Deferred tax assets	5,299	2,715	3,814
	93,058	101,440	90,737
Current assets			
Assets held for sale	128	3,186	16,660
Inventories	35,622	22,332	34,652
Derivative financial instruments	215	429	1,044
Trade and other receivables	127,461	119,546	121,946
Income tax assets	–	–	269
Cash and cash equivalents	26,999	17,587	16,110
	190,425	163,080	190,681
Total assets	283,483	264,520	281,418
Non-current liabilities			
Interest-bearing loans and borrowings	(52,437)	(424)	(4,434)
Retirement benefit obligations	(3,686)	(4,209)	(4,395)
Provisions	(1,425)	(4,421)	(2,682)
Derivative financial instruments	(193)	–	(30)
	(57,741)	(9,054)	(11,541)
Current liabilities			
Interest-bearing loans and borrowings	(3,199)	(37,807)	(42,460)
Trade and other payables	(86,519)	(80,871)	(89,800)
Income tax liabilities	(454)	(395)	–
Provisions	(2,177)	(600)	(1,523)
Derivative financial instruments	(6)	(869)	(7)
	(92,355)	(120,542)	(133,790)
Total liabilities	(150,096)	(129,596)	(145,331)
Net assets	133,387	134,924	136,087
Equity attributable to equity holders of the parent			
Share capital	3,314	3,314	3,314
Share premium	73,955	73,955	73,955
Other reserves	211	211	211
Translation reserve	(697)	(1,237)	(1,010)
Merger reserve	1,022	1,022	1,022
Hedging reserve	332	49	1,155
Capital redemption reserve	1,530	1,530	1,530
Share-based payment reserve	1,144	1,079	1,043
Retained earnings	52,597	54,996	54,886
	133,408	134,919	136,106
Non-controlling interest	(21)	5	(19)
Total equity	133,387	134,924	136,087

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 November 2017

	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total parent equity £000	Non-controlling interest £000	Total equity £000
Balance at 1 June 2017	3,314	73,955	(988)	224	211	1,530	1,022	936	57,694	137,898	29	137,927
Total comprehensive income and expense for the period												
Loss for the period	-	-	-	-	-	-	-	-	(1,262)	(1,262)	(24)	(1,286)
Other comprehensive income												
Foreign exchange translation differences	-	-	(249)	-	-	-	-	-	-	(249)	-	(249)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(237)	-	-	-	-	-	(237)	-	(237)
Tax recognised on other comprehensive income	-	-	-	62	-	-	-	-	-	62	-	62
Total other comprehensive income	-	-	(249)	(175)	-	-	-	-	-	(424)	-	(424)
Total comprehensive income and expense for the period	-	-	(249)	(175)	-	-	-	-	(1,262)	(1,686)	(24)	(1,710)
Transactions with owners recorded directly in equity												
Equity settled share-based payment transactions	-	-	-	-	-	-	-	143	-	143	-	143
Dividends paid	-	-	-	-	-	-	-	-	(1,436)	(1,436)	-	(1,436)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	143	(1,436)	(1,293)	-	(1,293)
Balance at 30 November 2017	3,314	73,955	(1,237)	49	211	1,530	1,022	1,079	54,996	134,919	5	134,924

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 November 2018

	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share- based payment reserve £000	Retained earnings £000	Total parent equity £000	Non- controlling interest £000	Total equity £000
Balance at 1 June 2018	3,314	73,955	(1,010)	1,155	211	1,530	1,022	1,043	54,886	136,106	(19)	136,087
Total comprehensive income and expense for the period												
Loss for the period	-	-	-	-	-	-	-	-	(846)	(846)	(2)	(848)
Other comprehensive income												
Foreign exchange translation differences	-	-	313	-	-	-	-	-	-	313	-	313
Effective portion of changes in fair value of cash flow hedges	-	-	-	(992)	-	-	-	-	-	(992)	-	(992)
Tax recognised on other comprehensive income	-	-	-	169	-	-	-	-	-	169	-	169
Total other comprehensive income	-	-	313	(823)	-	-	-	-	-	(510)	-	(510)
Total comprehensive income and expense for the period	-	-	313	(823)	-	-	-	-	(846)	(1,356)	(2)	(1,358)
Transactions with owners recorded directly in equity												
Equity settled share-based payment transactions	-	-	-	-	-	-	-	101	-	101	-	101
Dividends paid	-	-	-	-	-	-	-	-	(1,443)	(1,443)	-	(1,443)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	101	(1,443)	(1,342)	-	(1,342)
Balance at 30 November 2018	3,314	73,955	(697)	332	211	1,530	1,022	1,144	52,597	133,408	(21)	133,387

Condensed Consolidated Cash Flow Statement for the six months ended 30 November 2018

	Unaudited six months ended 30 November 2018 £000	Represented* Unaudited six months ended 30 November 2017 £000	Audited year ended 31 May 2018 £000
Cash flows from operating activities			
(Loss)/profit for the period from continuing operations	(4,855)	(1,011)	1,181
Adjustments for:			
Depreciation and impairment of property, plant and equipment	7,756	5,695	12,936
Impairment of investment properties	–	–	621
Amortisation and impairment of goodwill and intangible assets	–	179	880
Net finance expense	903	585	1,311
Share of profit of jointly controlled entities (net of tax)	(932)	(1,324)	(3,175)
(Profit)/loss on sale of Property, Plant and Equipment	(190)	(691)	185
Equity settled share-based payment expense	101	143	107
Income tax credit	(1,173)	(569)	(693)
Contributions to defined benefit pension schemes	(709)	(914)	(1,829)
Translation of non-controlling interest	(116)	124	(24)
	785	2,217	11,500
Change in assets held for sale	8,832	–	–
Change in inventories	(154)	6,817	10,976
Change in trade and other receivables	(4,823)	4,094	(2,984)
Change in trade and other payables	1,239	(8,650)	(387)
Change in provisions	(603)	(1,197)	(1,475)
	5,276	3,281	17,630
Interest paid	(802)	(282)	(905)
Income tax received	413	2,226	1,127
	4,887	5,225	17,852
Net cash inflow from continuing operating activities	4,887	5,225	17,852
Net cash inflow/(outflow) from operating activities in discontinued operations	14,020	(802)	(1,017)
	18,907	4,423	16,835
Net cash inflow from operating activities	18,907	4,423	16,835
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	1,025	3,405	1,001
Proceeds from sale of investment properties	373	–	–
Acquisition of investment property	(225)	–	(469)
Acquisition of property, plant and equipment	(5,677)	(9,394)	(20,758)
	(4,504)	(5,989)	(20,226)
Net cash outflow from investing activities in continuing operations	(4,504)	(5,989)	(20,226)
Net cash outflow from investing activities in discontinued operations	–	(1,607)	(4,309)
	(4,504)	(7,596)	(24,535)
Net cash outflow from investing activities	(4,504)	(7,596)	(24,535)
Cash flows from financing activities			
Payment of finance lease liabilities	(2,775)	(3,003)	(5,461)
Dividends paid	(1,443)	(1,436)	(2,300)
Proceeds from/(repayments of) Group banking facilities	700	(2,510)	3,800
	(3,518)	(6,949)	(3,961)
Net cash outflow from financing activities	(3,518)	(6,949)	(3,961)
Net increase/(decrease) in cash and cash equivalents	10,885	(10,122)	(11,661)
Cash and cash equivalents at the start of the period	16,110	27,817	27,817
Effect of exchange rate fluctuations on cash held	4	(108)	(46)
	26,999	17,587	16,110
Cash and cash equivalents at the end of the period	26,999	17,587	16,110

*Comparative figures have been represented to reflect the discontinued operation under IFRS 5, as explained in Note 2.

Notes to the Condensed Consolidated Interim Financial Information

1. Basis of preparation

The condensed consolidated interim financial information set out in this statement for the six months ended 30 November 2018 and the comparative figures for the six months ended 30 November 2017 is unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. It does not comply with IAS 34 'Interim Financial Reporting', as is permissible under the rules of the Alternative Investment Market.

The condensed consolidated interim financial information, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of adopted International Financial Reporting Standards. This statement does not include all the information required for the full annual financial statements and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 May 2018. For the year ending 31 May 2019, IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, have become effective. The Group has implemented these standards in preparing the condensed consolidated interim financial information. No material impact arises as a result of their implementation. There are no other new IFRS which apply to the condensed consolidated interim financial information.

2. Accounting policies

The accounting policies applied in preparing the condensed consolidated interim financial information are the same as those applied in the preparation of the annual financial statements for the year ended 31 May 2018, as described in those financial statements. The disposal of Brockwell Energy Limited, the subsidiary which represented the Group's interest in the Energy sector, represents a disposal group under IFRS 5, therefore the figures for the six month period ended 30 November 2017 have been represented in the Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income and the Condensed Consolidated Cash Flow Statement.

3. Status of financial information

The comparative figures for the financial year ended 31 May 2018 are not the company's statutory financial statements for that financial year. The statutory financial accounts for the financial year ended 31 May 2018 have been reported on by the company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

4. Principal risks and uncertainties

The principal risks and uncertainties affecting the Group are unchanged from those set out in the Group's accounts for the year ended 31 May 2018. The Directors have reviewed financial forecasts and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the condensed consolidated interim financial information.

5. Exceptional items

The Group has incurred an exceptional cost in the period due to the insolvency of Wolf Minerals (UK) Limited.

	Six months ended 30 November 2018 Unaudited £'000	Six months ended 30 November 2017 Unaudited £'000	Year ended 31 May 2018 Audited £'000
Losses due to the insolvency of Wolf Minerals (UK) Limited	(8,130)	–	–
Net losses on legacy contracts in C. A. Blackwell	–	(2,809)	(3,435)
Credit associated with early closure of certain mining operations	–	–	410
Exceptional items – cost of sales	(8,130)	(2,809)	(3,025)
Other restructuring costs relating to C. A. Blackwell	–	–	(459)
Total exceptional items	(8,130)	(2,809)	3,484

6. Results of associate

	Six months ended 30 November 2018 Unaudited £'000	Six months ended 30 November 2017 Unaudited £'000	Year ended 31 May 2018 Audited £'000
Share of profit of associates and jointly controlled entities	932	1,324	3,175
Taxation on associates and joint ventures	470	673	1,632
Interest on associates and joint ventures	622	428	1,654
Underlying operating profit of associate	2,024	2,425	6,461

7. Taxation

Income tax for the period is charged at 19% (2017: 19%). The effective tax rate, after removing the impact of jointly controlled entities is 16.9% (2017: 19.5%), representing an estimate of the annual effective rate for the full year to 31 May 2019.

8. Discontinued operations

	Six months ended 30 November 2018 Unaudited £'000	Six months ended 30 November 2017 Unaudited £'000	Year ended 31 May 2018 Audited £'000
Proceeds from disposal of subsidiary	21,733	–	–
Assets disposed	(10,034)	–	–
	11,699	–	–
Administrative expenses	(7,437)	(339)	(1,144)
Profit/(loss) before tax of discontinued operations	4,262	(339)	(1,144)
Current tax (charge)/credit	(255)	64	91
Deferred tax credit	–	–	53
Taxation	(255)	64	144
Profit/(loss) for the period from discontinued operations	4,007	(275)	(1,000)

The discontinued operations represent the activities of Brockwell Energy Limited (“Brockwell”), the subsidiary which represented the Group’s interest in the Energy sector. The Company disposed of the whole of its shareholding in Brockwell on 19 October 2018. Proceeds includes the reimbursement of certain costs and expenses incurred by or in respect of Brockwell.

9. Dividends

The final dividend of 4.5 pence per ordinary share, proposed in the 2018 annual accounts and approved by the shareholders at the Annual General Meeting on 30 October 2018, was paid on 2 November 2018.

The directors have proposed an interim dividend of 2.7 pence per share (2017: 2.7p) which will be paid on 8 April 2019 to shareholders on the register at the close of business on 1 March 2019. This will be paid out of the Company’s available distributable reserves. In accordance with IAS 1, dividends are recorded only when paid and are shown as a movement in equity rather than as a charge in the income statement

10. Earnings per share

	Six months ended 30 November 2018 Unaudited			Six months ended 30 November 2017 Unaudited			Year ended 31 May 2018 Audited		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Underlying earnings per share from continuing operations	1,732	5.40	5.33	1,121	3.52	3.48	4,764	14.90	14.79
Exceptional items and amortisation (net of tax)	(6,585)	(20.53)	(20.28)	(2,108)	(6.62)	(6.54)	(3,535)	(11.06)	(10.97)
Continuing basic earnings per share	(4,853)	(15.13)	(14.95)	(987)	(3.10)	(3.06)	1,229	3.84	3.82
Discontinued operations	4,007	12.49		(275)	(0.86)		(1,000)	(3.12)	
Basic earnings per share	(846)	(2.64)		(1,262)	(3.96)		229	0.72	
Weighted average number of shares		32,077	32,468		31,888	32,244		31,981	32,214

The calculation of diluted earnings per share is based on the profit for the period attributable to equity holders of the Company and on the weighted average number of ordinary shares in issue in the period adjusted for the dilutive effect of the share options outstanding. The effect on weighted average number of shares is 391,000 (2017: 356,000), the effect on continuing basic earnings per ordinary share is 0.18p (2017: 0.04p).

Notes to the Condensed Consolidated Interim Financial Information continued

11. Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors, since they are responsible for strategic decisions.

	Distribution & Services Unaudited 30 November 2018 £000	Property Unaudited 30 November 2018 £000	Legacy Unaudited 30 November 2018 £000	Corporate Unaudited 30 November 2018 £000	Total Unaudited 30 November 2018 £000
Revenue					
Total revenue	152,774	9,403	5,925	–	168,102
Inter-segment revenue	(230)	–	–	–	(230)
Revenue from external customers	152,544	9,403	5,925	–	167,872
Underlying operating profit/(loss)	6,387	378	–	(2,668)	4,097
Taxation on associates and joint ventures	(470)	–	–	–	(470)
Exceptional items	(8,130)	–	–	–	(8,130)
Operating (loss)/profit including share of associate	(2,213)	378	–	(2,668)	(4,503)
Interest on associates and joint ventures	(622)	–	–	–	(622)
Net financing costs	(862)	(73)	–	32	(903)
(Loss)/profit before taxation	(3,697)	305	–	(2,636)	(6,028)

	Distribution & Services Unaudited 30 November 2017 £000	Property Unaudited 30 November 2017 £000	Legacy Unaudited 30 November 2017 £000	Corporate Unaudited 30 November 2017 £000	Total Unaudited 30 November 2017 £000
Revenue					
Total revenue	147,247	3,595	373	–	151,215
Inter-segment revenue	(444)	(503)	–	–	(947)
Revenue from external customers	146,803	3,092	373	–	150,268
Underlying operating profit/(loss)	5,565	(406)	46	(2,111)	3,094
Amortisation and impairment of intangible assets	(179)	–	–	–	(179)
Taxation on associates and joint ventures	(673)	–	–	–	(673)
Exceptional items	(2,809)	–	–	–	(2,809)
Operating profit/(loss) including share of associate	1,904	(406)	46	(2,111)	(567)
Interest on associates and joint ventures	(428)	–	–	–	(428)
Net financing costs	(887)	(249)	–	551	(585)
Profit/(loss) before taxation	589	(655)	46	(1,560)	(1,580)

Underlying Operating Profit is defined by the Board as Operating Profit from continuing activities prior to exceptional items and amortisation of intangible assets and includes the Group's share of the operating profit of its German associate. It is a key performance measure monitored by the Board on a monthly basis.

12. Condensed consolidated interim financial information

The condensed consolidated interim financial information was approved by the Board of Directors on 30 January 2019. Copies of this interim statement will be sent to all shareholders and will be available to the public from the Group's registered office.

Notes

Investor Information

Company Secretary

Andrew Robertson

Auditor

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Bankers

HSBC
4th Floor
City Point
29 King Street
Leeds
LS1 2HL

Lloyds Banking Group

1st Floor
102 Grey Street
Newcastle upon Tyne
NE1 6AG

Legal Advisers

Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

Nominated Adviser and Joint Stock Broker

N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

Joint Stock Broker

Investec Bank plc
30 Gresham Street
London
EC2V 7QP

Registered Office

West Terrace
Esh Winning
Durham
DH7 9PT

Registrar

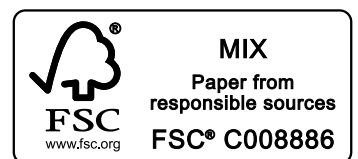
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

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for up to date investor information,
company news and other information.



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Visit us at emperor.works



Hargreaves Services plc
West Terrace
Esh Winning
Durham DH7 9PT
Tel: 0191 373 4485
Fax: 0191 373 3777

www.hsgplc.co.uk